

10 June 2016

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Attention: Mr Ian Dempster
Cc: Mr Ian Wilson

BY E-MAIL

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Dear Ian

Methanex New Zealand Limited submission in regard to Gas Transmission Security and Reliability

Thank you for inviting comments on the Gas Industry Company's Issues Paper - April 2016 concerning Gas Transmission Security and Reliability.

Our responses to the Questions raised in the Issues Paper are as follows:

- 1. Do you agree that the current disclosed metrics provide useful status and trend indications? If not, what information do you think is redundant or missing?**
- 2. Do you agree that the metrics could usefully be summarised and displayed in a dashboard format accompanied by the GTB's interpretation? Are there other improvements you would suggest?**

There is the danger that too much focus is given to delivering highly-summarised, dashboard type information at the expense of more substantive explanation of network performance and performance-related issues. What is most important is the GTB's interpretation and concise but comprehensive explanation of network performance, particularly in circumstances where the targets have been missed.

We also believe it important that consumers are allowed to provide on-going input on what individual performance measures would be most meaningful and that there is flexibility to revise or replace measures that prove to be insufficient, or fail to address consumer concerns.

An example of this might be Compressor Availability. The hours per year that each individual Mokau compressor is available for service in a year is less meaningful as a performance measure than the number of hours that (a) only one compressor was available and (b) when neither compressor was available. The problem with aggregating performance is magnified in the case of Vector's % based measure. The figure provides no information on the risk of coincident outages of compressors affecting a particular network node or zone.

3. Do you agree that there are strong reputational, contractual and legislative drivers for a GTB to achieve effective S & R. If not, what else do you think is needed?

4. Do you think we have correctly identified the requirements to achieve the S & R objectives? If not what requirements are necessary or missing?

We have not identified any concerns in regard to these questions.

5. Do you think the gap analysis is adequate? If not, what gaps have not been identified?

We do not consider that addressing capacity allocation is as important as has been expressed by GIC, particularly in regard to the Maui Pipeline.

We believe there is a gap in terms of addressing the Security and Reliability of information systems generally and in particular the OATIS system which is approaching, or has already reached, obsolescence and has experienced reliability issues.

6. Do you agree that it is not necessary to mandate any security standards?

At this stage we support this view on the basis of giving the new pipeline owner the opportunity to set appropriate standards to satisfy customer requirements, before revisiting the need for mandatory standards. Without any clear evidence to the contrary, the GTB should be best qualified to determine the appropriate security standard for customers as a whole, operating within its overall regulatory cap, provided that there is also adequate information disclosure to enable consumers to assess the decisions made by the GTB.

7. Do you agree that the current AMP's are generally adequate, but missing a layer of GTB interpretation?

We don't wish to draw conclusions on the adequacy of AMP's by reference to MDL's Transitional AMP given they are an outgoing owner. However, we would expect more informative disclosure from the new owner including:

- (a) more explanation of the status and risks associated with particular assets (examples being OATIS status and remaining service lives/MTBF on key assets).

- (b) more explanation of the threats to assets and associated mitigation strategies. We note that in MDL's Transitional AMP, less than one page has been devoted to describing Land Stability Threats, despite over \$30m being allocated to the Whitecliffs Realignment alone.
- (c) commentary on performance against the performance objectives, particularly where there have been incidents or targets have been missed.

8. Do you agree that it is unnecessary for a GTB's PIMP to be disclosed?

In respect to further disclosures, such as making the Pipeline Integrity Management Plan ("PIMP") available, our view is that greater levels of disclosure should be promoted by GIC particularly if consumers are seeking out such information.

Although the GTB is the best placed to gather and analyse information they may also have incentives not to disclose certain information which consumers should have access to. As we mentioned in respect to Question 7 we consider that in key respects MDL's Transitional AMP provides insufficient information. We also recognise that additional disclosure comes at a cost but it should not be used as a blanket rationale to avoid disclosure. As consumers will bear the costs, they should be given the opportunity to determine what is or isn't justifiable disclosure on cost grounds.

Consequently, we do not agree, on the basis of the explanation provided by GIC, that PIMP's should be withheld from pipeline users.

It may be sufficient that the GTB responds to consumer requests for further information in connection with AMP's, but this will need to be tested and if information is not forthcoming it may become necessary to make further disclosures mandatory. We would also like GIC to comment more fully on overseas disclosure requirements as a guide to what should be a reasonable expectation in New Zealand.

9. Do you agree that there are statutory arrangements to permit scrutiny of a GTB's decisions to invest, or not invest (albeit these arrangements have not been tested)?

We have not identified any concerns in regard to these questions.

10. Are there any aspects of the gap analysis that you do not agree with?

We do not agree with the statements that further disclosures are not necessary, in respect to pipeline operating procedures and PIMPS. If consumers seek further disclosure we suggest the position taken by GIC should be that information should be provided unless there is a compelling reason not to. The GTB's can reduce the cost impacts of further disclosure by ensuring that routine disclosures, such as AMP's, provide sufficient information in the first instance.

We have concerns that issues relating to information systems, such as OATIS, have not been considered as an S & R issue. We are aware that OATIS is an 'at risk' asset in need of replacement and failure would have significant impact on consumer's abilities to manage gas flows. Replacement

is likely to have significant cost implications and so needs to be fully addressed in the Asset Management Plan.

We also wish to take the opportunity to highlight the comment made by GIC, that it has “not investigated the adequacy of the technical standards, GTB operating procedures, GTB maintenance regimes, or compliance with them” (page 38). We believe that in order to draw some of the conclusions GIC has made it should have undertaken such investigation, or sought confirmation from the relevant certifying authority.

11. Do you agree with our suggested action points? Are there any other actions that you believe are necessary?

- (i) We do not understand the relative importance being placed on addressing capacity allocation, at least in respect of the Maui Pipeline. There are no indications to us of any current or prospective capacity constraints on the Maui Pipeline. Statements made by MDL in respect to future investment in capacity and the lack of interest in Authorised Quantities under the current Code are clear indicators in this regard.
- (ii) We agree that there should be greater interaction between GTB's and stakeholders to improve AMP's, performance measures and targets, and disclosure in general. We do not agree with the basis for GIC's conclusion that PIMP's should not be disclosed.
- (iii) We agree that individual consumers should be able to negotiate with GTB's for more flexible and tailored products, and where applicable GTB's should be incentivised to offer such opportunities.
- (iv) We agree with GIC continuing to assess the adequacy of balancing arrangements. In respect to interaction with Commerce Commission we agree that duplication should be avoided but consider it more important that the objective should be to ensure adequate coordination with Commerce Commission, particularly in terms of delivering desirable pipeline consumer outcomes out of regulatory determinations.
- (v) We accept that since we have not yet seen the new pipeline owner's first Asset Management Plan it is premature to make any judgements on adequacy. However we would like to see an added action item (or extension of Item 1(a) on page 40) for the GIC to consult with stakeholders on adequacy of the new pipeline owner's AMP once it has been circulated. With a new pipeline owner starting with a fresh approach, GIC and the gas industry has the best opportunity to establish appropriate standards for future AMP's and other disclosures.

Yours sincerely



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